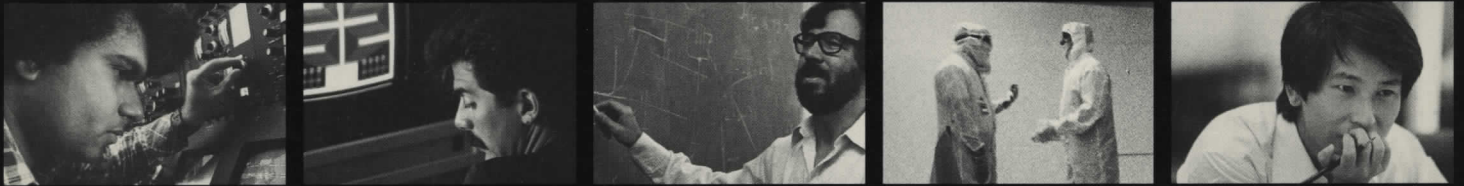


INTEL CORPORATION ANNUAL REPORT 1983



Intel at work:

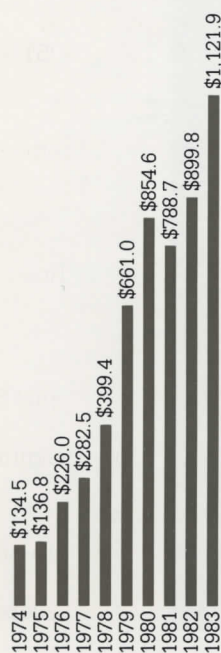


a self-portrait



| | | 1983 | 1982 | Percent Change |
|--------------------------|--------------|-------------|-----------|----------------|
| Net revenues | | \$1,121,943 | \$899,812 | 25% |
| Income: | Before taxes | \$ 178,455 | \$ 30,346 | 488% |
| | Net | \$ 116,111 | \$ 30,046 | 286% |
| | Per share | \$ 1.05 | \$.32 | 228% |
| Return on revenues: | Before taxes | 15.9% | 3.4% | |
| | Net | 10.3% | 3.3% | |
| Return on average equity | | 13.9% | 5.8% | |

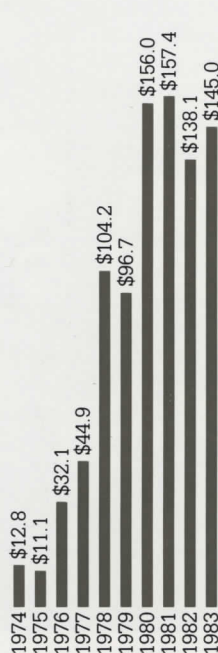
See page 26 for a description of our industry segment reporting.



Net Revenues
(Millions)



Net Income
(Millions)



Capital Additions
(Additions to Property,
Plant and Equipment)
(Millions)



Research and Development
(Millions)



Employees
(At Year End)
(Thousands)

Intel passed the one billion dollar revenue milestone in 1983 and earnings increased to a record level. The economic recovery reached Intel and the rest of the semiconductor industry by mid-year and business has remained especially strong since. The change from the previous period of extended recession is certainly welcome.

Annual revenue grew 25% and operating profits increased nearly fivefold from depressed 1982 levels. In addition, interest income grew by over \$28 million, resulting in net income up nearly fourfold and earnings per share more than tripling to \$1.05. In the final quarter, revenue was up 39% over the preceding year.

Such a strong and sudden change in business conditions brings its own problems. It is not possible for us to expand production fast enough to satisfy the needs of our customers, although we are doing everything we can to increase our output. We are expanding our work force as fast as we can attract and assimilate people with the skills we need.

Our new wafer fabrication plant in Rio Rancho, New Mexico, will begin production in the first quarter. This is not only our largest wafer fab, it is also the first one in the world to use 150mm. (6-inch) diameter wafers instead of the 100mm. wafers used in our other plants. These larger wafers enable us to more than double the number of chips on a wafer, adding further to the new plant's productivity. In 1984, there will be new construction underway at virtually all of Intel's sites around the world.

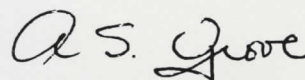
The market strength we are experiencing spans most of the digital electronics marketplace we serve. The explosion of personal computers and other office-use products certainly is a major source of the unusual order strength, but by no means the only one. Automotive electronics, factory automation and consumer electronics are among other strong market sectors. The breadth of the market strength again illustrates the broad applicability of electronic solutions to problems facing industrialized society. We continue to be excited about the future of our business.

The market has been strongest in the United States and Japan with the rest of the industrialized countries in the Pacific Basin growing in importance. The Pacific Basin market—Hong Kong, Korea, Singapore and Taiwan—offers excellent potential for Intel, and we will be focusing resources to develop our business in this market. Consistent with the corporate growth rate, our business in Japan grew 28% in 1983. We are among the largest importers of semiconductors into the Japanese market. In recent months signs of recovery in Europe are apparent, especially in Germany and the United Kingdom. A total of 34% of our 1983 revenue was generated by overseas sales. This is down slightly from 1982 partially because of the weak European economy and because of the unusual strength of the dollar relative to other currencies.

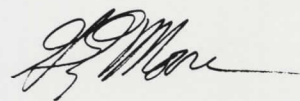
In our industry, economic recoveries tend to be led by new products. This one is no exception. During the recession, our employees did a superb job of bringing new products to the market. By 1983, these new products had been designed into new systems by our customers, resulting in demand well above earlier projections for our new microprocessors, microcontrollers and peripheral circuits. Our component production capacity expansion is focused on these products.

In order to maintain our leadership in digital electronics, we must continue to invest heavily in new products and technologies, in production capacity and in the sales and other capabilities needed to support our customers. Fortunately, we are in a good position to make the required investments. Our cash balance is exceptionally strong and we have little debt. We expect to continue to make large investments in each of the above areas in the coming year. For example, our investment in facilities and equipment, which has been about \$150 million per year for the last four years, is likely to more than double in 1984.

It's been an exciting year as our outlook changed extremely rapidly from strong concern over the possibility of a deepening recession to a focus on increasing output at the maximum rate. Our employees started the year with a temporary pay cut and freeze that was phased out by mid-year when we could see recovery. Again, we are asking them for special efforts to help meet our customers' needs, and again they are responding with excellent performance. We'd like to take this opportunity to express our thanks for their efforts and understanding.



A. S. Grove
President and Chief
Operating Officer



G. E. Moore
Chairman and Chief
Executive Officer



Photo: Ronald May

Gordon E. Moore (left)
and Andrew S. Grove

Intel is a manufacturer of electronic "building blocks" used by Original Equipment Manufacturers (OEMs) to construct their systems. Intel's strategy is to offer OEMs a wide range of solutions to their needs, and to offer these solutions at component, board and system levels. Following are brief profiles of the principal products Intel provides.

MICROPROCESSORS

Function. A microprocessor is the chip that constitutes the central processing unit of a microcomputer-based system. The microprocessor directs the manipulation of data in the system, controlling input, output, peripheral and memory devices.

Intel Position. Intel introduced the first microprocessor in 1971, and is the world's largest manufacturer of Metal Oxide Semiconductor (MOS) microprocessors. In 16-bit microprocessors, an advanced portion of the market, Intel has a 72% market share, according to this year's Cowen/Datamation survey.

1983 Developments. Intel's iAPX 86/88 family of 16-bit microprocessors emerged as the world standard microprocessor for the fast-growing personal computer industry. More than 60 new personal computers were introduced this year based on these processors. The iAPX 186 and 286, two advanced processors introduced in 1982, began moving into volume production.

Market Data. 1983 industry sales, 8 and 16-bit microprocessors: \$290 million. 1979-83 compound annual growth rate: 30%.*

*Dataquest

MICROCONTROLLERS

Function. On one chip, a microcontroller has a central processing unit, random access memory, program memory, and input-output circuitry. This product is used in industrial control for robotics and instrumentation; in communications for phones and modems; in computers for keyboards and peripherals; and in consumer products for automobile engine control and home video.

Intel Position. Intel introduced the first 8-bit microcontroller in 1976, and is the largest manufac-

turer of this type of microcontroller. The Intel MCS-48 family of microcontrollers, which is also manufactured by several other companies, has been the dominant 8-bit microcontroller architecture in the industry since its introduction.

1983 Developments. The MCS-51 microcontroller family, newer and more powerful than the MCS-48, grew very rapidly this year. MCS-51 production was four times higher than in 1982, and will grow at an even greater multiple to become the dominant architecture in 1984. Some MCS-48 competitors cut their production in 1983, putting greater demand on Intel to serve customers for this very popular part. In addition, Intel introduced the third generation MCS-96 microcontroller family. This highly integrated 16-bit microcontroller will reach production quantities in 1984 and will set a new standard for microcontroller performance and cost effectiveness.

Market Data. 1983 industry sales, 8-bit microcontrollers: \$223 million. 1979-83 compound annual growth rate: 64%.*

*Dataquest

MICROPROCESSOR PERIPHERALS

Function. Peripheral components include special purpose microprocessors that manage both input/output and system functions. For example, the 82586 LAN coprocessor handles the communications and low level software for a local area network. Peripheral controllers perform specific tasks such as the control of floppy disks, Winchester disks, keyboards, or dot matrix printers. By handling specific input/output tasks very efficiently, peripherals reduce the burden on the central processing unit and enhance total system performance.

Intel Position. Intel offers 61 VLSI peripheral components, the broadest selection of such products in the industry.

1983 Developments. Seven major new peripherals were introduced by Intel this year, including the 82730 text coprocessor, designed to meet text processing needs in word processors, small business systems and work stations. Another example of new products introduced in 1983 is the 82062 Winchester disk controller, designed to control 5¼" Winchester disks used in personal computers.

Market Data. 1983 industry sales, microprocessor peripherals: \$630 million. 1979-83 average annualized growth rate: 33%.*

*Intel estimate

MEMORIES

Function. Memory components are used to store computer programs and data entered during system operation. Non-volatile memories retain data when system power is shut off, while volatile memories do not. There is a variety of types of memory components within the two categories: users select among them by evaluating price/density/functionality trade-offs to arrive at the right choice for a specific application.

Intel Position. Intel is among the world's largest manufacturers of Metal Oxide Semiconductor (MOS) memory devices, and is also the largest producer of high density magnetic bubble memories. The company manufactures eight types of volatile and non-volatile memory components, and also produces the FAST 3825, a semiconductor-based memory system used with main-frame computers.

1983 Developments. Intel introduced the industry's first 256K Erasable, Programmable Read-Only Memory (EPROM), which stores more than a quarter-million bits of data, and the first 4K Non-volatile Random Access Memory (NVRAM). Sales of one-million-bit bubble memories grew rapidly during the year. During 1983, Intel announced the world's first process technology

for building dynamic RAMs in CMOS. Also, the company produced large quantities of the integrated RAM, a special microprocessor memory that offers many features equivalent to conventional static RAM but at a significantly lower cost.

Market Data. 1983 industry sales, MOS semiconductor memories: \$4 billion. 1979-83 average annualized growth rate: 33%.*

*Dataquest

DEVELOPMENT SYSTEMS

Function. Engineers use microcomputer development systems to develop and debug the hardware and software for systems based on Intel microprocessors.

Intel Position. Intel is the world's largest manufacturer of microcomputer development systems.

1983 Developments. The Intellec Series IV development system and I²ICE, a development tool combining in-circuit emulation and logic analysis, were introduced this year. Intel's Personal Development System began shipping in volume during 1983.

Market Data. 1983 industry sales: \$1 billion. 1979-83 average annualized growth rate: 30%.*

*Intel estimate

MICROCOMPUTER SYSTEMS

Function. Rather than assemble components, an increasing number of Intel's OEM customers prefer to buy single board computers or fully integrated microcomputer systems from us. These systems serve as basic "computing engines" to which OEMs add their proprietary applications software to produce a broad variety of systems for specific purposes.

Intel Position. Intel is among the largest manufacturers of single board computers. We entered the market for fully integrated systems

two years ago, and this portion of our business has begun to grow rapidly.

1983 Developments. Systems 86/310 and 286/310, based on the 8086 and 80286, respectively, were introduced this year. Also new was the iSBC 186/51, a single board computer that offers both the computing power of the 80186 and the local area network control capability of the 82586.

Market Data. 1983 industry sales, single board computers* and OEM microcomputer systems**: \$2.8 billion. 1979-83 average annualized growth rate: 29%.***

*EDP Industry Report

**infoCorp

***Intel estimate

SOFTWARE

Function. Software is the set of instructions that must be written to direct a microcomputer-based system to perform specific tasks.

Intel Position. Intel offers an extensive selection of operating systems, high level languages, and development and debug support for OEMs incorporating Intel microprocessors or microprocessor-based systems into their products.

1983 Developments. Intel introduced the XENIX† operating system for the 80286 microprocessor and announced that a version of the Unix System V‡ operating system would be available for the 286 in 1984.

Market Data. 1983 industry sales, microcomputer software: \$1.5 billion. 1979-83 average compound growth rate: 80%.*

*Software Access

†XENIX is a trademark of Microsoft, Inc.

‡Unix is a trademark of Bell Laboratories

The photographs on this and the following pages focus on the people of Intel in a unique way: they represent the best efforts of Intel employees who participated in a company-wide photo contest. In some instances, professional photographers were used to supplement employee photography.

For one week in August, 1983, Intel employees throughout the world were allowed to bring cameras into their facilities to photograph the company. The result is this series of photographs, a self-portrait that we hope captures something of the personality of this company as it goes about its job of designing, manufacturing, selling and servicing microelectronic components and systems worldwide. We also hope this self-portrait conveys our pride in our work and in each other.

To the employees who participated, thank you for making this *your* annual report.

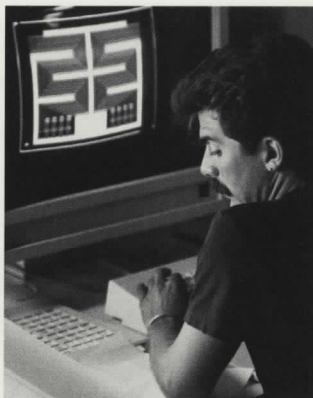


Photo: Mike Reitsma

John Zaferes, mask designer, completes a drawing of a segment of an integrated circuit using a computer-aided design (CAD) system. CAD has replaced the mylar and pencil formerly used for mask design. CAD gives Intel the ability to design VLSI chips containing hundreds of thousands of circuit elements for a reasonable cost.

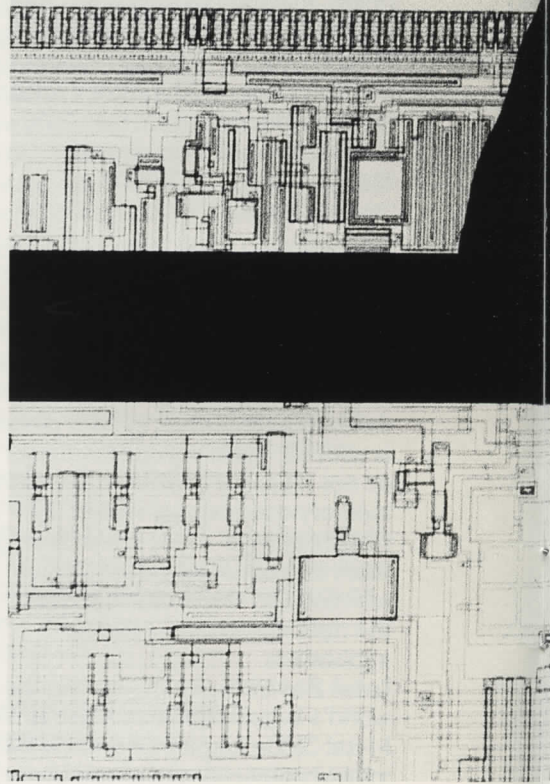


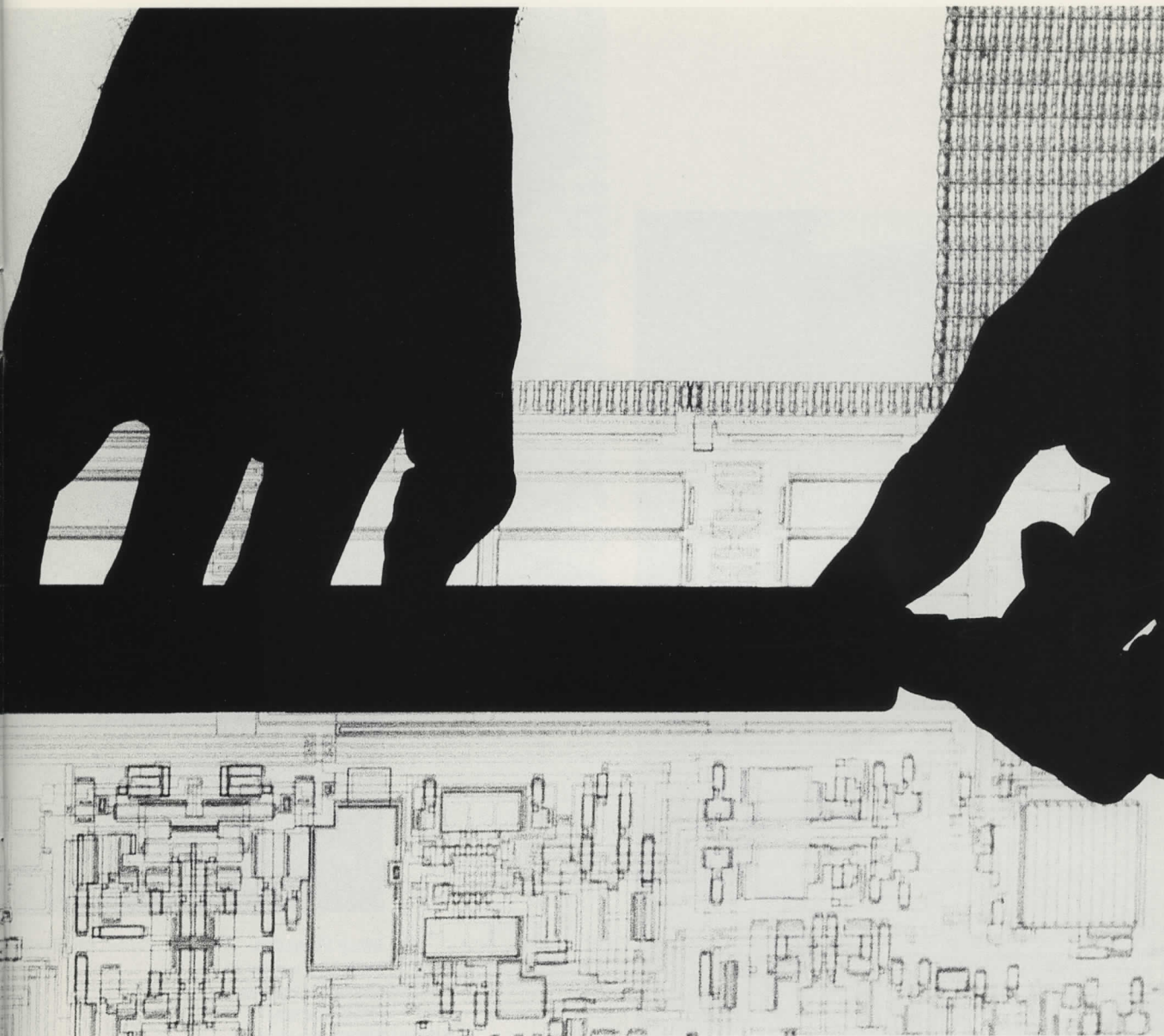
Photo: Judy Noice



At Intel, private offices are a thing of the past.



Photo: Bill Boyce

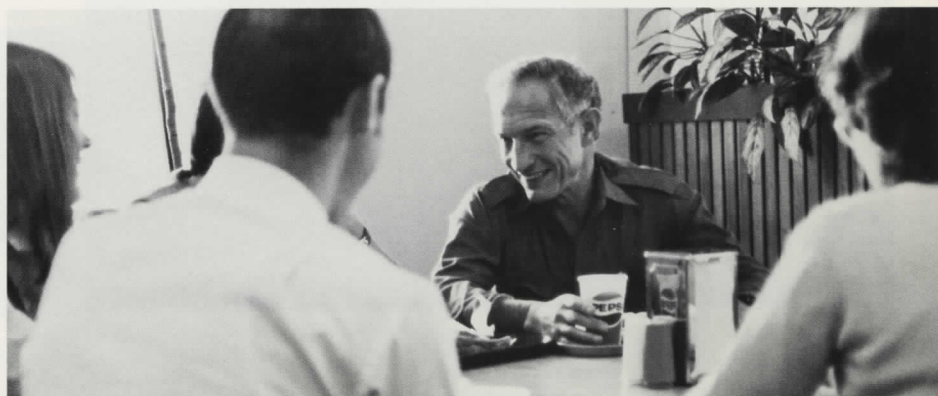


Measurement of one of the over 37,000 devices on a plot of an Intel 2816A EPROM. The actual size of the chip is just one-seventh of an inch on each side.

Photo: Mike Reitsma

Robert Noyce, one of Intel's founders, presently vice chairman of the board, at lunch with employees in cafeteria, Santa Clara. Dr. Noyce was recently appointed by President Reagan to serve on the President's Commission on Industrial Competitiveness to study ways to assure the success of U.S. industry in world markets.

Photo: Howard High

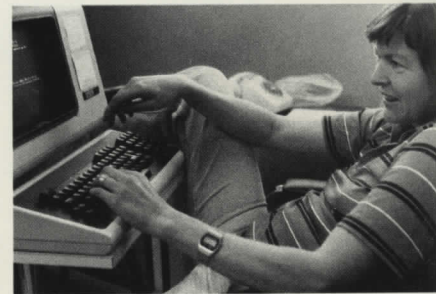




Central design area in Haifa, Israel, one of nine Intel component design centers.

Photo: Paul Fusco

Dr. Jim McCreary, manager of the California Technology Development Advanced-Devices Engineering Department, discusses the characteristics of an MOS current source.



Mary Swenson, technical writer in the Israel Software Development Group prepares a software support manual, Haifa.

Photo: Paul Fusco

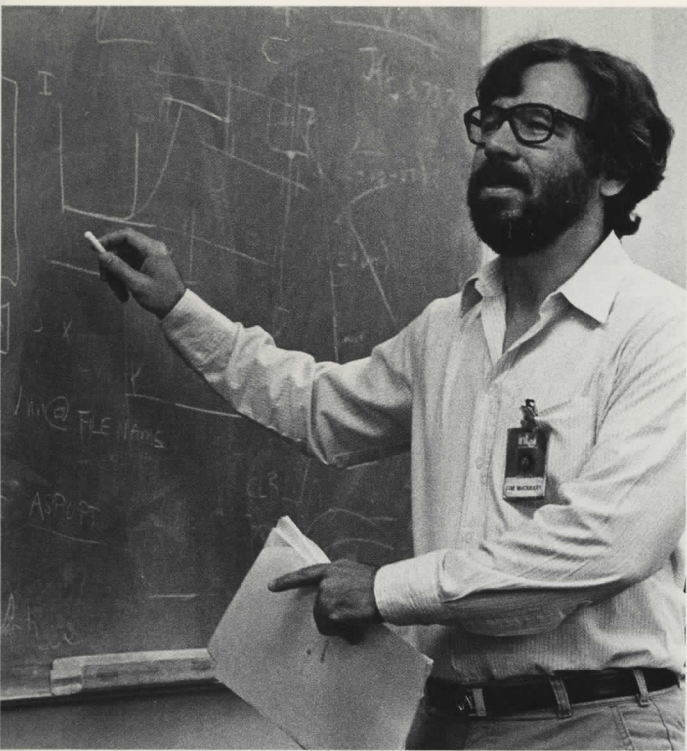


Photo: Mike Reitsma

Steve Schmidt (left) Fab IV wet masking technician, took the photo of Ron Willis (right), Fab V process technician, and vice versa. Both Steve and Ron are working with a scanning electron microscope to inspect the pattern on a silicon wafer for precise dimension.

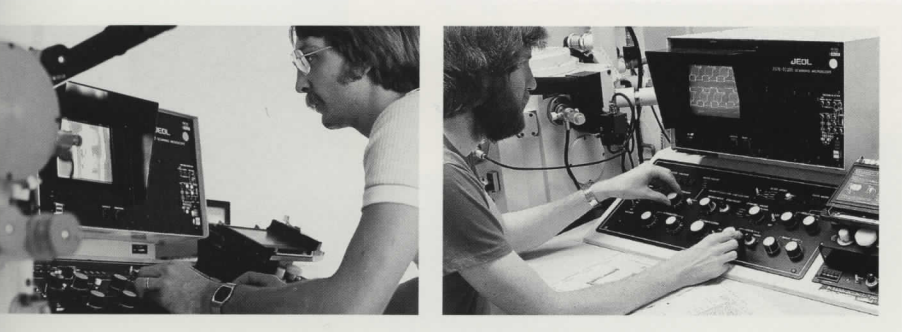


Photo: Ron Willis Photo: Steve Schmidt

Senior engineer Sudhakar Kudva checks an integrated circuit using a scanning electron microscope (SEM). The SEM takes high magnification photos such as the one below, to detect defects and study the fine structures of a complicated chip.



Photo: Chuck O'Rear

This cross section of an Intel 2764 EPROM is magnified 5,000 times to show four of the masking layers etched on the silicon. The thinnest layers visible are about one millionth of an inch thick.

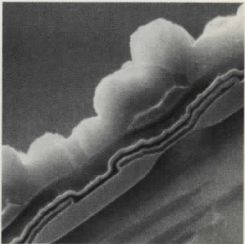


Photo: Sudhakar Kudva

Like our business, our communication efforts need to be highly integrated. Harry Hollack, Southwest Die Production manager, checks a project with Gini Volini, illustrator, Southwest Die Production Training.

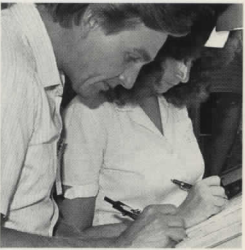


Photo: Tom Elledge



Pam Aratani, a product engineer for the 2004 (4K non-volatile RAM), studies an enlargement of one of the product's masking layers.

Photo: Mike Reitsma



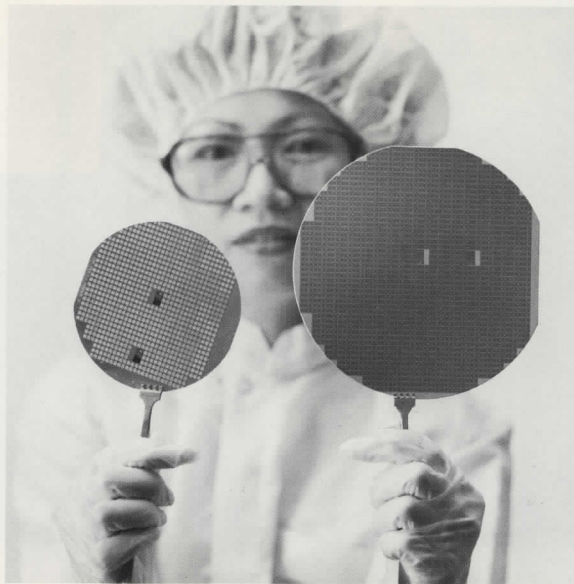


Photo: R.J. Muna

Intel is the first semiconductor company in the industry to produce 150mm. (6-inch) diameter wafers, which can yield more than twice the number of chips produced on the standard 100mm. (4-inch) wafers used in other Intel fabs. At Intel's new plant in Albuquerque, we will produce 2764A EPROMS (erasable programmable read-only memories) with a die size about half that of the popular 2764. The combination of larger wafers with smaller die means Intel will be able to produce many times more 2764As than 2764s. Larger wafers will also be used to fabricate higher density EPROMS such as the 27256, which contains over 256,000 bits of information.

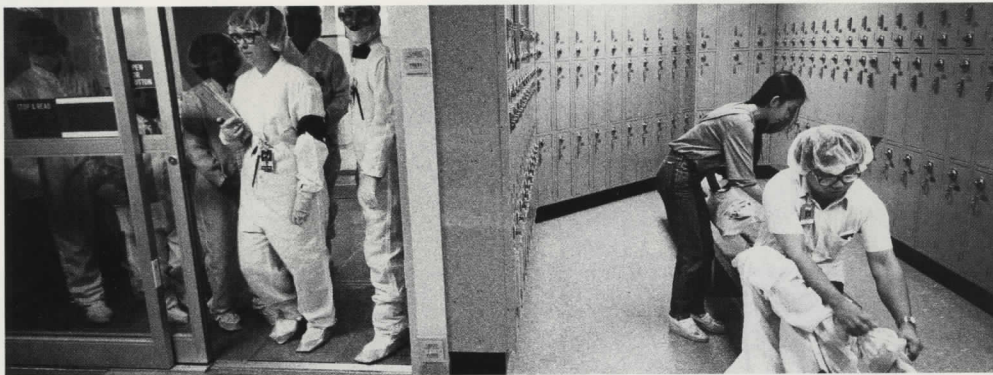
The long and the short of it. Don Busch (left) and Hai Duy Ho, both Programmable Memory Operation product engineering technicians.

Joe Holman, computer operator, examines a plot of a production test pattern of a new CHMOS memory. CHMOS refers to Intel's high speed version of CMOS, or Complementary Metal Oxide Semiconductor technology.



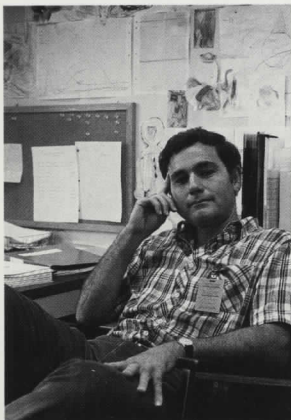
Photo: Mike Reitsma

Photo: Reo Gargovich



*Shift change,
Fab VI, Chandler,
Arizona.*

Photo: Paul Fusco



*Dr. Boaz Eitan, de-
vice physicist.
Artwork on the
wall is by daughter
Yael.*

Photo: Mike Reitsma

Photo: Howard High



Anna Martinez, diffusion operator, inspects wafers in Fab VI.

Photo: Paul Fusco



Routine equipment maintenance is critical to fab productivity. Equipment engineering services technicians work on a sputtering system, Fab VI.



Photo: Chuck O'Rear

Components Test Facility, Penang, Malaysia.

Photo: Chuck O'Rear



Masatoshi Shima, designer of the 8080 and 8085 microprocessors, and manager, New Product Development Lab, Japan Design Center, Tsukuba.

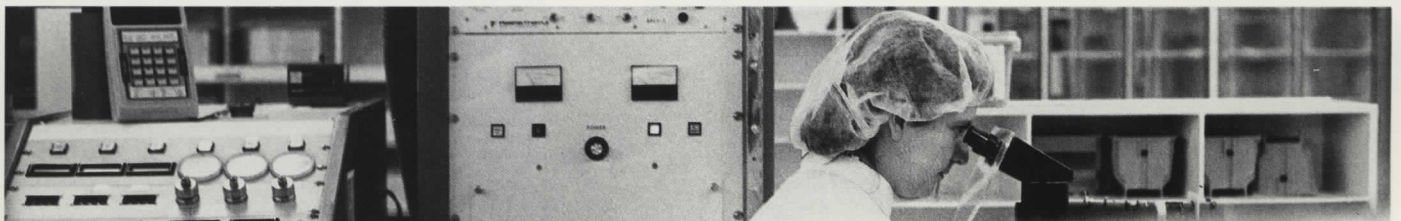


Photo: Paul Fusco



Protection, not style in clothing, is the first concern in a wafer fabrication plant. Jam Sanzeni, masking operator, Fab VI.

Photo: Howard High



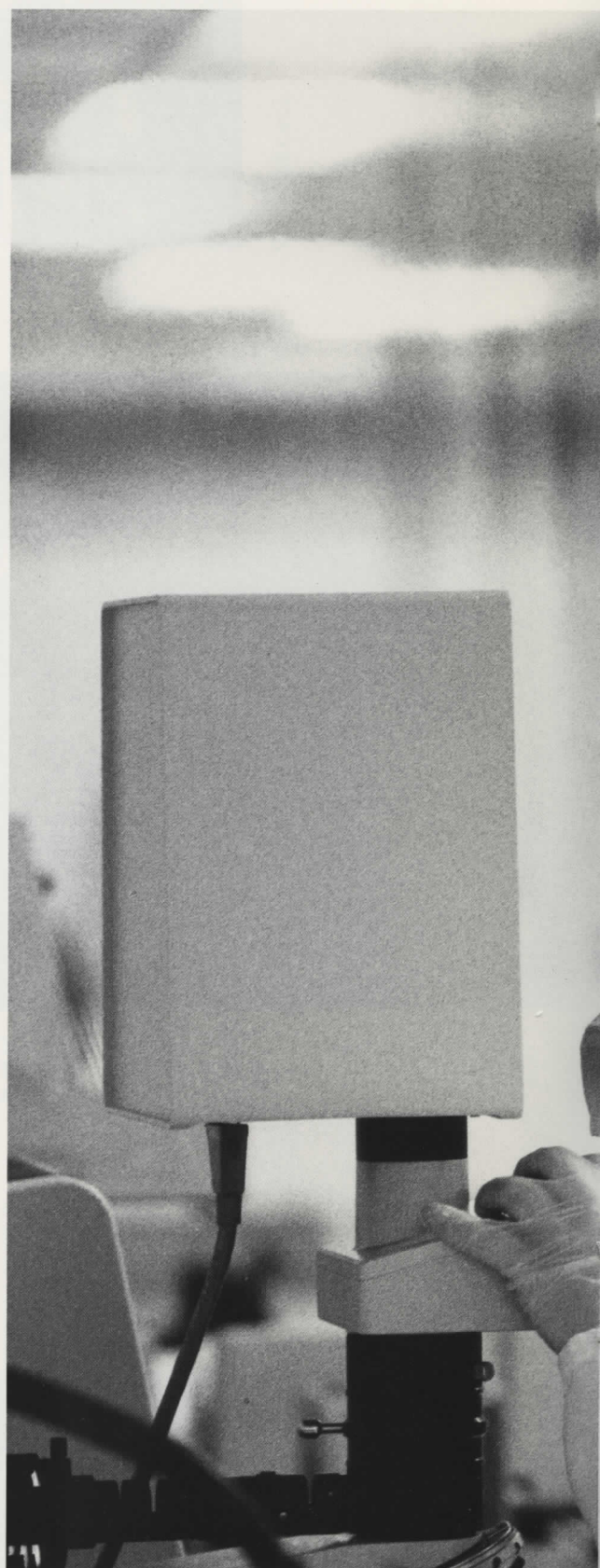
Sylvia Silverthorn, quality control inspector, inspects board-level computers at Intel's facility in Oregon.

Photo: Mark Tuschman

Software support engineer Suzanne McCuiston uses a Series IV Development System while discussing applications with Intel field sales engineers who are helping customers develop programs for our 16-bit microprocessors. Intel also runs a software support hotline for direct customer inquiries.



Photo: Chuck O'Rear



(Foreground) Analytical inspection of an incoming wafer; (background) checking the particle count in the air (plastic screen protects wafers from dust that can ruin chips); Fab VII, Albuquerque.



Photo: Paul Fusco



(Left to right) Tom Rossi, field application engineer, and Vance Fellows, field sales engineer, discuss TeleVideo's new Tele-PC Family with Tom Kohrs, project manager. TeleVideo's product is one of more than 60 personal computers introduced this year based on an Intel micro-processor. *Tele-PC is a trademark of TeleVideo Systems, Inc.*



Photo: Paul Fusco



Photo: Howard High

Jean Jones, Intel's 14th employee, secretary to chairman Gordon Moore.

Customer Training Session, Haifa, Israel. During 1983, Intel trained over 14,000 customers worldwide at 13 Intel locations.



Photo: Chuck O'Rear

District manager Mike Barton (left) conducts a "one-on-one" meeting with Stan Kulesa, field sales engineer. One-on-one meetings occur at least bi-weekly between all Intel managers and their direct reports.



Photo: Tom Bialek

Maria Hernandez, Puerto Rico systems assembly line.

Photo: Humberto Garcia

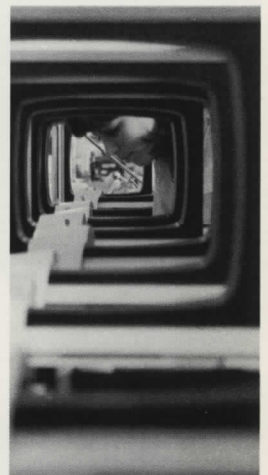


Photo: Paul Fusco

During 1983, a year of rapid expansion, Intel trained over 600 new fab operators. Each worker receives 190 hours of training.



(Background) Bob Lejsek, Intel customer engineering specialist, works with Mike Corp, hardware manager, Tricom Systems Corporation. Tricom uses Intel's System 86/310, a microcomputer system based on the 8086, as a building block for its automated automobile service scheduling systems.

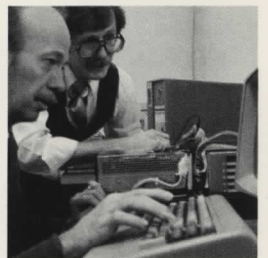


Photo: Ronald May



Photo: Paul Fusco

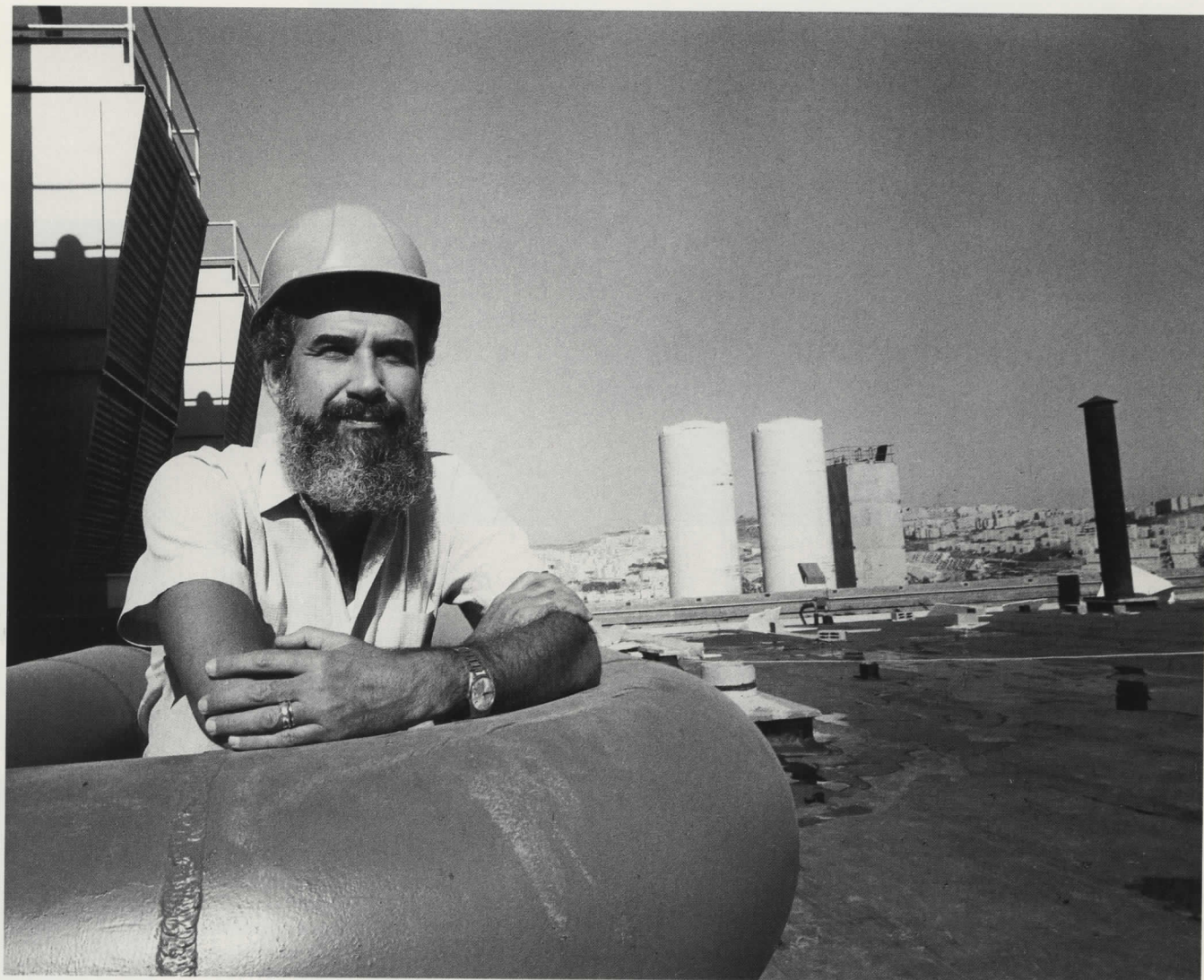


Photo: Paul Fusco

Dov Frohman, inventor of the EPROM, director of operations in Israel, at the Fab VIII site in Jerusalem, now under construction. The new 180,000 square-foot facility will eventually employ about 900.

Midnight marks the end of the workday for some; for others, it's just beginning. Fab VI, Chandler, Arizona.



Photo: Paul Fusco

Photo: Sue Honoré



Finian O'Connell, senior shipping/receiving transporter (left), works with Peter Carpenter at the Swindon, England warehouse.

Intel's first "office" in Folsom, California. More substantial construction to follow in mid-1984. During 1984, we will have one and a half million square feet of facilities under construction worldwide.



Photo: Steve Loe & Jaime Morante

Meet Intel Seow Teik Yang, born unexpectedly this year at the clinic in Intel's facility in Penang, Malaysia, giving a new meaning to the slogan "Intel delivers."

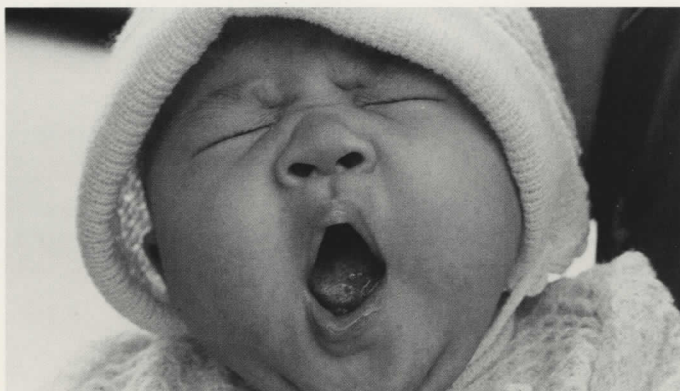


Photo: Chuck O'Rear

| Three Years Ended December 31, 1983 | 1983 | 1982 | 1981 |
|--|--------------------|------------------|------------------|
| NET REVENUES | \$1,121,943 | \$899,812 | \$788,676 |
| Cost of sales | 624,296 | 541,928 | 458,308 |
| Research and development | 142,295 | 130,801 | 116,496 |
| Marketing, general and administrative | 216,635 | 198,640 | 184,293 |
| Operating costs and expenses | 983,226 | 871,369 | 759,097 |
| Operating income | 138,717 | 28,443 | 29,579 |
| Interest and other | 39,738 | 1,903 | 10,655 |
| Income before taxes on income | 178,455 | 30,346 | 40,234 |
| Taxes on income | 62,344 | 300 | 12,875 |
| NET INCOME | \$ 116,111 | \$ 30,046 | \$ 27,359 |
| Earnings per capital and capital equivalent share | \$ 1.05 | \$.32 | \$.31 |
| Capital shares and equivalents | 110,544 | 92,542 | 89,400 |

See accompanying notes.

Consolidated Statements of Shareholders' Equity (Thousands)

| Three Years Ended December 31, 1983 | Capital Stock | | Retained Earnings | Total |
|--|------------------|------------------|-------------------|--------------------|
| | Number of shares | Amount | | |
| Balance at December 31, 1980 | 85,472 | \$127,979 | \$304,881 | \$ 432,860 |
| Proceeds from sales of shares through employee stock plans and tax benefit of \$7,539 | 2,060 | 27,598 | — | 27,598 |
| Net income | — | — | 27,359 | 27,359 |
| Balance at December 31, 1981 | 87,532 | 155,577 | 332,240 | 487,817 |
| Proceeds from sales of shares through employee stock plans and tax benefit of \$7,001 | 3,192 | 33,990 | — | 33,990 |
| Net income | — | — | 30,046 | 30,046 |
| Balance at December 31, 1982 | 90,724 | 189,567 | 362,286 | 551,853 |
| Proceeds from sales of shares through employee stock plans and tax benefit of \$15,351 | 3,523 | 56,780 | — | 56,780 |
| Proceeds from sale of shares | 12,500 | 250,000 | — | 250,000 |
| Conversion of 7% convertible subordinated debentures | 4,954 | 146,996 | — | 146,996 |
| Net income | — | — | 116,111 | 116,111 |
| Balance at December 31, 1983 | 111,701 | \$643,343 | \$478,397 | \$1,121,740 |

See accompanying notes.

| December 31, 1983 and 1982 | 1983 | 1982 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and temporary cash investments | \$ 83,669 | \$ 34,465 |
| Short-term investments (at cost, which approximates market) | 305,408 | 50,867 |
| Accounts receivable, net of allowance for doubtful accounts of \$5,342 (\$3,867 in 1982) | 303,034 | 221,216 |
| Inventories | 151,903 | 121,747 |
| Prepaid taxes on income | 65,643 | 43,844 |
| Other current assets | 23,674 | 55,894 |
| Total current assets | 933,331 | 528,033 |
| Property, plant and equipment: | | |
| Land and buildings | 322,987 | 322,836 |
| Machinery and equipment | 438,262 | 355,591 |
| Construction in progress | 39,506 | 18,810 |
| | 800,755 | 697,237 |
| LESS Accumulated depreciation | 297,163 | 235,612 |
| Property, plant and equipment, net | 503,592 | 461,625 |
| Long-term investments (at cost, which approximates market) | 216,652 | 50,934 |
| Other non-current assets | 26,075 | 15,860 |
| TOTAL ASSETS | \$ 1,679,650 | \$ 1,056,452 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable | \$ 81,082 | \$ 75,482 |
| Accounts payable | 79,139 | 39,138 |
| Deferred income on shipments to distributors | 73,684 | 51,984 |
| Accrued compensation and benefits | 29,855 | 24,449 |
| Other accrued liabilities | 43,528 | 31,694 |
| Income taxes payable | 18,262 | — |
| Total current liabilities | 325,550 | 222,747 |
| Long-term debt | 127,586 | 47,143 |
| 7% convertible subordinated debentures | — | 150,000 |
| Deferred taxes on income | 89,318 | 67,744 |
| Unamortized investment tax credits | 15,456 | 16,965 |
| Shareholders' equity: | | |
| Capital stock, no par value, 150,000 shares authorized, 111,701 issued and outstanding in 1983 (90,724 in 1982) | 643,343 | 189,567 |
| Retained earnings | 478,397 | 362,286 |
| Total shareholders' equity | 1,121,740 | 551,853 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,679,650 | \$ 1,056,452 |

See accompanying notes.

(Certain 1982 amounts have been reclassified to conform to the 1983 presentation.)

| Three Years Ended December 31, 1983 | 1983 | 1982 | 1981 |
|--|-------------------|-------------------|--------------------|
| Working capital provided by operations: | | | |
| Net income | \$ 116,111 | \$ 30,046 | \$ 27,359 |
| Charges to income not involving the current use of working capital: | | | |
| Depreciation and net retirements | 103,007 | 82,538 | 66,238 |
| Non-current portion of deferred taxes on income and deferred investment tax credits | 20,065 | 22,986 | 24,686 |
| Total working capital provided by operations | 239,183 | 135,570 | 118,283 |
| Working capital provided by: | | | |
| Additions to long-term debt | 120,443 | 47,143 | — |
| Proceeds from sale of capital stock | 250,000 | — | — |
| Issuance of stock due to conversion of 7% convertible subordinated debentures, net of issuance costs | 146,996 | — | — |
| Proceeds from sales of shares through employee stock plans and tax benefits thereof | 56,780 | 33,990 | 27,598 |
| Total working capital provided | 813,402 | 216,703 | 145,881 |
| Working capital used for: | | | |
| Additions to property, plant and equipment | 144,974 | 138,085 | 157,426 |
| Long-term investments and other assets, net | 175,933 | 61,125 | — |
| Defeasance of long-term debt | 40,000 | — | — |
| Conversion of 7% convertible subordinated debentures | 150,000 | — | — |
| Total working capital used | 510,907 | 199,210 | 157,426 |
| Increase(decrease) in working capital | \$ 302,495 | \$ 17,493 | \$ (11,545) |
| Increase(decrease) in working capital by component: | | | |
| Cash and temporary cash investments | \$ 49,204 | \$ 9,578 | \$ 9,245 |
| Short-term investments | 254,541 | (39,506) | (21,666) |
| Accounts receivable | 81,818 | 41,612 | (16,040) |
| Inventories | 30,156 | 24,295 | 6,051 |
| Prepaid taxes on income | 21,799 | 5,205 | 15,381 |
| Other current assets | (32,220) | 27,079 | 20,190 |
| Notes payable | (5,600) | (43,593) | (20,045) |
| Accounts payable | (40,001) | 2,562 | (11,350) |
| Deferred income on shipments to distributors | (21,700) | 699 | (6,650) |
| Accrued compensation and benefits | (5,406) | (4,311) | (3,990) |
| Other accrued liabilities | (11,834) | (6,127) | (1,813) |
| Profit sharing retirement plan accrual | — | — | 15,250 |
| Income taxes payable | (18,262) | — | 3,892 |
| Increase (decrease) in working capital | 302,495 | 17,493 | (11,545) |
| Working capital at beginning of year | 305,286 | 287,793 | 299,338 |
| Working capital at end of year | \$ 607,781 | \$ 305,286 | \$ 287,793 |

(Certain 1982 and 1981 amounts have been reclassified to conform to the 1983 presentation.)

See accompanying notes.

ACCOUNTING POLICIES

Basis of Presentation The consolidated financial statements include the accounts of Intel Corporation and all of its subsidiaries. Effective January 1, 1983, accounts denominated in foreign currencies have been translated in accordance with FASB Statement No. 52, using the U.S. dollar as the functional currency. Prior period financial statements have not been restated.

The adoption of FASB Statement No. 52 did not have a material effect upon the 1983 financial statements. Translation gains included in net income for 1982 and 1981 (see Interest and Other) resulted from the translation of foreign currencies under FASB Statement No. 8. If the financial statements had been translated under FASB Statement No. 52, the effect on net income as reported for 1982 and 1981 would have been immaterial.

Inventories Inventories are stated at the lower of cost or market. Cost is on a first-in, first-out basis for materials and purchased parts and is computed on a currently adjusted standard basis (which approximates average or first-in, first-out cost) for work in process and finished goods. Market is based upon estimated realizable value reduced by normal gross margin. Inventories at December 31 are as follows:

| | 1983 | 1982 |
|-------------------------------|-------------|-----------|
| | (Thousands) | |
| Materials and purchased parts | \$ 38,529 | \$ 36,928 |
| Work in process | 69,846 | 54,937 |
| Finished goods | 43,528 | 29,882 |
| Total | \$151,903 | \$121,747 |

Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation is computed for financial reporting purposes principally by use of the straight-line method over the estimated useful lives of the assets. Accelerated methods of computing depreciation are used for tax purposes.

Deferred Income on Shipments to Distributors

Certain of Intel's sales are made to distributors under agreements allowing price protection and right of return on merchandise unsold by the distributors. Because of frequent sales price reductions and rapid technological obsolescence in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

Investment Tax Credits Investment tax credits are accounted for using the deferral method whereby credits are treated as a reduction of the U. S. federal tax provision ratably over the useful lives of the related assets.

Capital Stock On February 7, 1983, the Company sold 12,500,000 shares of previously authorized but unissued capital stock to IBM Corporation for \$250 million in accordance with an agreement reached in December 1982. (See Related Party Transactions.)

Effective June 30, 1983, Intel declared a two-for-one stock split and increased its authorized shares from 75,000,000 to 150,000,000. Shares and per share amounts reported herein have been restated to reflect the effect of this stock split.

Earnings Per Capital and Capital Equivalent Share

Earnings per share are computed using the weighted average number of outstanding capital shares and capital equivalent shares. Capital equivalent shares include shares issuable under employee stock option plans as determined by the treasury stock method.

Shares of capital stock issued in connection with the conversion of the 7% convertible subordinated debentures (see Borrowings) have been included in the computation of earnings per share only from the time of conversion since they were previously antidilutive when considering interest on the debentures. If the debentures had been converted on January 1, 1983, earnings per share for the year ended December 31, 1983 would have been \$1.06.

BORROWINGS

Intel's borrowings were comprised of notes payable, long-term debt, and 7% convertible subordinated debentures. Notes payable at December 31, 1983 include \$27.4 million issued under foreign lines of credit and \$53.7 million collateralized by short-term investments. At December 31, 1983 Intel had established foreign and domestic lines of credit of approximately \$215,000,000. These lines are generally renegotiated on an annual basis. Intel complies with compensating balance requirements related to certain of these lines of credit; however, such requirements are immaterial and do not legally restrict the use of cash. The weighted average interest rate on short-term borrowings outstanding at December 31, 1983 approximated 9.0%.

Proceeds of \$80,000,000 from the Adjustable Rate Industrial Revenue Bonds issued in September, 1983 (the 1983A Bonds) and \$30,000,000 issued in December, 1983 (the 1983B Bonds) by the Puerto Rico Industrial, Medical and Environmental Pollution Control Facilities Financing Authority (the Authority) have been loaned to the Company. In accordance with loan agreements between the Company and the Authority, the Company has guaranteed repayment of principal and interest on these Bonds, which are subject to redemption prior to maturity upon the occurrence of certain events. The 1983A Bonds are due September 1, 2013, bear interest at 8% through Au-

gust 1988 and are adjustable and redeemable every five years beginning September 1988 through September 2008 in accordance with certain formulas. The 1983B Bonds are due December 1, 2013, bear interest at 7.95% through November 1988 and are adjustable and redeemable every five years beginning December 1988 through December 2008 in accordance with certain formulas.

In connection with these agreements, the Company is obligated to spend a total of \$110,000,000 to finance expansion in Puerto Rico. As of December 31, 1983, the Company had spent \$25,455,000. The remainder of the Company's commitment is restricted and invested in long-term interest-bearing securities. (See Investments.)

In accordance with the provisions of certain agreements signed in connection with the issuance of \$40,000,000 of 9 1/2% Industrial Revenue Bonds by the Authority in March 1982 (the 1982 Bonds) due March 1, 1987, approximately \$40,000,000 of the proceeds from the 1983A Bonds have been placed in an irrevocable trust to be used solely to satisfy the debt service requirements of the 1982 obligation. Therefore, neither the 1982 Bonds nor the assets in the irrevocable trust appear on the balance sheet. All of the 1982 Bonds were outstanding as of December 31, 1983.

Long-term debt at December 31, 1983 and 1982 includes \$110,000,000 and \$40,000,000, respectively, of Intel's obligations under these agreements with the Puerto Rico Authority.

The 7% convertible subordinated debentures issued in August 1980 were called on September 14, 1983 for redemption on October 14, 1983. \$149,875,000 were converted into 4,954,000 shares of capital stock and the remaining \$125,000 were redeemed subject to a premium of 5.95% and accrued interest through October 14, 1983.

The remaining long-term debt represents primarily low-interest borrowings in conjunction with foreign construction and is due at varying dates through 1993.

INTEREST AND OTHER

| | 1983 | 1982 | 1981 |
|------------------------|-------------|----------|----------|
| | (Thousands) | | |
| Interest income | \$46,256 | \$17,666 | \$21,119 |
| Interest expense | (16,177) | (16,136) | (12,129) |
| Foreign currency gains | 3,497 | 373 | 1,665 |
| Other income | 6,162 | — | — |
| Total | \$39,738 | \$ 1,903 | \$10,655 |

Interest expense for 1983, 1982 and 1981 excludes \$573,000, \$1,210,000, and \$3,000,000, respectively, which was capitalized as a component of construction costs. Other income includes the gain realized on the sale of assets and the sale of an investment in common stock accounted for under the cost method.

INVESTMENTS

Investments consist of marketable securities, Eurodollar deposits, and investments under repurchase agreements. Investments with maturities of greater than one year are classified as long-term. (See Borrowings.)

TAXES ON INCOME

Pretax income and taxes on income consist of the following:

| | 1983 | 1982 | 1981 |
|-----------------------|-------------|------------|------------|
| | (Thousands) | | |
| Pretax income: | | | |
| U.S. | \$ 84,550 | \$ 3,494 | \$ 14,749 |
| Foreign | 93,905 | 26,852 | 25,485 |
| Total pretax income | \$178,455 | \$ 30,346 | \$ 40,234 |
| Taxes on income | | | |
| Federal | | | |
| Current | \$ 20,220 | \$(24,729) | \$ (7,105) |
| Deferred (prepaid) | 1,904 | 12,913 | 5,187 |
| | 22,124 | (11,816) | (1,918) |
| State | | | |
| Current | 12,331 | 730 | 1,651 |
| Deferred (prepaid) | (1,624) | 1,091 | 683 |
| | 10,707 | 1,821 | 2,334 |
| Foreign | | | |
| Current | 33,503 | 6,518 | 9,416 |
| Deferred (prepaid) | (3,990) | 3,777 | 3,043 |
| | 29,513 | 10,295 | 12,459 |
| Total taxes on income | \$ 62,344 | \$ 300 | \$ 12,875 |
| Effective tax rate | 35% | 1% | 32% |

The provision for taxes on income reconciles to the amount computed by applying the statutory Federal rate to earnings before taxes as follows:

| | 1983 | 1982 | 1981 |
|--|-------------|-----------|-----------|
| | (Thousands) | | |
| Computed expected tax | \$ 82,088 | \$ 13,959 | \$ 18,508 |
| State taxes, net of Federal benefit | 5,782 | 983 | 1,260 |
| Amortization of investment tax credits | (7,772) | (7,244) | (6,800) |
| Research and experimental credits | (6,431) | (6,253) | (1,400) |
| Other | (11,323) | (1,145) | 1,307 |
| Provision for income taxes | \$ 62,344 | \$ 300 | \$ 12,875 |

Deferred (prepaid) income taxes result from differences in the timing of certain revenue and expense items for tax and financial reporting purposes. The sources and tax effects of these differences are as follows:

| | 1983 | 1982 | 1981 |
|---------------------------------------|-------------|-----------|------------|
| | (Thousands) | | |
| Inventory valuation | \$ (6,932) | \$ (470) | \$ (8,994) |
| Distributor sales and other reserves | (16,863) | 908 | 1,243 |
| DISC and other undistributed earnings | 19,077 | 8,019 | 2,971 |
| Deferred ITC | (1,509) | (739) | 3,933 |
| Depreciation | 8,791 | 5,971 | 9,333 |
| State and local tax accruals | (1,818) | 766 | 2,235 |
| Other, net | (4,456) | 3,326 | (1,808) |
| Deferred (prepaid) income taxes | \$ (3,710) | \$ 17,781 | \$ 8,913 |

Total tax refunds receivable of approximately \$43 million are included in other current assets at December 31, 1982.

Intel's U.S. income tax returns for the years 1978 through 1982 are presently under examination by the Internal Revenue Service. Management believes that adequate amounts of tax have been provided for any adjustments which may result.

EMPLOYEE BENEFIT PLANS

Stock Option Plans Intel has stock option plans under which officers and key employees may be granted options to purchase shares of Intel's authorized but unissued capital stock at not less than 85% of the fair market value at date of grant. The existing non-qualified stock option plans were amended during 1981 in accordance with provisions of the Economic Recovery Tax Act of 1981 to provide employees with incentive stock options. In conjunction with these amendments, employees were offered the opportunity to cancel non-qualified options received subsequent to December 31, 1975, and receive new incentive options for the same number of shares. With this cancellation and reissue, management changed the exercise price of options which were outstanding at exercise prices significantly higher than the then current market price. This change in exercise price was made because management believed that the higher priced options were no longer a motivating factor for key employees and officers. Under existing incentive stock option plans, employees are granted options at fair market value at date of grant.

Options expire no later than ten years from date of grant. No material charges have been made to income in accounting for options. Proceeds and income tax benefits realized by Intel as a result of transactions in these plans are credited to capital stock. Additional information with respect to employee stock options is as follows:

| | Shares Available For Options | Outstanding Options | |
|--|------------------------------------|---------------------|--------------------|
| | | Number of Shares | Aggregate Price |
| | (Thousands) | | |
| December 31, 1980 | 8,834 | 10,234 | \$108,772 |
| Options granted | (9,924) | 9,924 | 88,590 |
| Options exercised | — | (1,172) | (6,831) |
| Options cancelled | 7,886 | (7,886) | (82,412) |
| December 31, 1981 | 6,796 | 11,100 | \$108,119 |
| Options granted | (2,090) | 2,090 | 28,116 |
| Options exercised | — | (2,134) | (14,585) |
| Options cancelled | 846 | (846) | (14,040) |
| December 31, 1982 | 5,552 | 10,210 | \$107,610 |
| Options granted | (3,283) | 3,283 | 105,120 |
| Options exercised | — | (2,490) | (20,618) |
| Options cancelled | 759 | (759) | (10,269) |
| Options cancelled under expired plans | (433) | — | — |
| December 31, 1983 | 2,595 | 10,244 | \$181,843 |
| Options exercisable at: | | | |
| December 31, 1981 | | 1,240 | \$ 9,532 |
| 1982 | | 4,040 | \$ 33,094 |
| 1983 | | 3,021 | \$ 29,437 |

The average exercise price for options outstanding at December 31, 1983 was \$17.75 while the range of individual exercise prices was \$1.38 to \$45.13. Individual options outstanding at that date will expire if not exercised at specific dates ranging from January 1984 to December 1993. The range of exercise prices for options exercised during the three year period ended December 31, 1983 was \$.50 to \$19.94.

In 1983, 180,000 shares of authorized but previously unissued Intel stock were issued to key employees of one of the company's subsidiaries in connection with a separate stock compensation plan. The fair market value of the Intel stock issued in connection with this plan had previously been charged to income.

Stock Participation Plan Under this plan, qualified employees are entitled to purchase shares of Intel's capital stock at 85% of the fair market value at certain specified dates. Of the 8,000,000 shares authorized to be issued under this plan, as amended, 2,969,000 shares are available for issuance at December 31, 1983. Employees purchased 905,000 shares in 1983 (1,138,000 and 888,000 in 1982 and 1981, respectively) for \$14,220,000 (\$12,301,000 and \$13,228,000 in 1982 and 1981, respectively).

Profit Sharing Retirement Plan Effective July 1, 1979, Intel adopted a profit sharing retirement plan for the benefit of qualified employees. The plan is designed to provide employees with an accumulation of funds at retirement and provides for annual contributions to trust funds based on a formula determined by the Board of Directors. \$950,000 was accrued for 1983 (none in 1982 or 1981).

Employee annual entitlements vest five years after each plan year or upon retirement and are based upon accumulated fund assets. It is Management's intention to fund annual contributions on a current basis.

Effective January 1, 1983, the Company amended the plan to include a Payroll Based Tax Credit Employee Stock Ownership Plan (PASOP) program whereby shares of Company stock are purchased for the benefit of qualified employees based on a percentage of qualified compensation, as defined. Approximately \$1,250,000 was charged to pretax profits in 1983 under this program. Shares credited to employees under this program vest immediately and are subject to withdrawal upon the earlier of termination of employment or 84 months from date of contribution.

Effective January 1, 1984, the formula for the Company contribution to the profit sharing retirement plan has been amended to provide for mandatory contributions based on a percentage of qualified payroll, so long as the Company is profitable, and additional contributions based on a formula determined by the Board of Directors.

COMMITMENTS

Intel leases a portion of its capital equipment and certain of its facilities under leases which expire at various dates through 2008. Rental expense was \$19,700,000 in 1983, \$18,700,000 in 1982, and \$16,500,000 in 1981. Minimum rental commitments

under all non-cancelable leases with an initial term in excess of one year are payable as follows: 1984—\$14,200,000; 1985—\$12,100,000; 1986—\$9,600,000; 1987—\$7,800,000; 1988—\$5,200,000; 1989 and beyond—\$9,200,000.

Commitments for construction or purchase of property, plant, and equipment approximate \$113 million at December 31, 1983. In addition to these commitments, under terms of agreements made with government agencies of a foreign country, Intel has signed agreements to spend an additional \$47 million as of December 31, 1983 on construction and equipment for manufacturing facilities within that country. Financial inducements provided to Intel in connection with these agreements include a combination of grants and low-interest loans to fund a major portion of this construction. The agreements provide that all phases of the project be completed in 1985, loans be secured by the facilities, and amounts borrowed be repaid in quarterly installments through 1993.

INDUSTRY SEGMENT REPORTING

Intel and its subsidiaries operate in one dominant industry segment and are engaged principally in the design, development, manufacture, and sale of semiconductor components and systems incorporating these components. No one customer accounted for more than 10% of revenues in 1983. In 1982 and 1981 approximately 13.5% and 13%, respectively, of Intel's revenues were derived from sales to one significant customer. (See Related Party Transactions.)

Operations outside the United States include assembly and test facilities which are maintained in Barbados, Malaysia, and the Philippines, and sales subsidiaries throughout Europe and other parts of the world. Summary balance sheet information for operations outside of the United States at December 31 is as follows:

| | 1983 | 1982 |
|-----------------------------------|-------------|-----------|
| | (Thousands) | |
| Total assets | \$271,562 | \$217,082 |
| Total liabilities | 103,794 | 85,227 |
| Net property, plant and equipment | 95,977 | 79,380 |

Geographic information for the three years ended December 31, 1983 is presented in the tables below. Sales to unaffiliated customers include revenues from both the sale of products and other types of transactions. Transfers between geographic areas are accounted for at amounts which are generally above cost and consistent with rules and regulations of governing tax authorities. Such transfers are eliminated in the consolidated financial statements. Operating income by geographic segment does not include an allocation of general corporate expenses. Identifiable assets are those assets that can be directly associated with a particular geographic area and thus do not include assets used for general corporate purposes, principally cash, short-term investments and prepaid taxes on income. Eliminations associated with identifiable assets are immaterial and have been offset against U.S. assets. Export sales are U.S. revenues from the direct sale of products in foreign countries.

| | U. S. | Europe | Other | (Eliminations) and Corporate | Consolidated |
|------------------------------------|-------------|-----------|-----------|------------------------------------|--------------|
| | (Thousands) | | | | |
| 1983 | | | | | |
| Sales to unaffiliated customers | \$ 809,035 | \$208,376 | \$104,532 | \$ — | \$1,121,943 |
| Transfers between geographic areas | 191,055 | — | 67,142 | (258,197) | — |
| Net revenues | \$1,000,090 | \$208,376 | \$171,674 | \$(258,197) | \$1,121,943 |
| Operating income | \$ 142,065 | \$ 35,805 | \$ 24,475 | \$ (63,628) | \$ 138,717 |
| Identifiable assets | \$1,001,450 | \$ 98,783 | \$172,779 | \$ 406,638 | \$1,679,650 |
| Export sales | \$ 71,284 | \$ — | \$ — | \$ — | \$ 71,284 |
| 1982 | | | | | |
| Sales to unaffiliated customers | \$ 651,574 | \$161,807 | \$ 86,431 | \$ — | \$ 899,812 |
| Transfers between geographic areas | 163,158 | — | 51,979 | (215,137) | — |
| Net revenues | \$ 814,732 | \$161,807 | \$138,410 | \$(215,137) | \$ 899,812 |
| Operating income | \$ 57,960 | \$ 15,997 | \$ 3,269 | \$ (48,783) | \$ 28,443 |
| Identifiable assets | \$ 752,758 | \$ 80,680 | \$136,402 | \$ 86,612 | \$1,056,452 |
| Export sales | \$ 75,719 | \$ — | \$ — | \$ — | \$ 75,719 |
| 1981 | | | | | |
| Sales to unaffiliated customers | \$ 597,909 | \$132,708 | \$ 58,059 | \$ — | \$ 788,676 |
| Transfers between geographic areas | 122,640 | — | 39,630 | (162,270) | — |
| Net revenues | \$ 720,549 | \$132,708 | \$ 97,689 | \$(162,270) | \$ 788,676 |
| Operating income | \$ 30,162 | \$ 14,901 | \$ 6,443 | \$ (21,927) | \$ 29,579 |
| Identifiable assets | \$ 571,065 | \$ 87,391 | \$ 87,658 | \$ 125,403 | \$ 871,517 |
| Export sales | \$ 86,710 | \$ — | \$ — | \$ — | \$ 86,710 |

RELATED PARTY TRANSACTIONS

In February, 1983 International Business Machines Corporation (IBM) became a related party due to their purchase of Intel stock (see Capital Stock). In 1983, approximately 8.6% of Intel's revenues were derived from sales to IBM. In addition, Intel had purchases of approximately \$12 million from IBM (including lease obligations). Amounts receivable from and payable to IBM are immaterial at December 31, 1983.

SUPPLEMENTAL INFORMATION (unaudited)

Quarterly Information Quarterly information for each of the two years in the period ended December 31, 1983 is presented below.

Inflation Adjusted Information A financial summary which has been adjusted for changing prices to reflect the effects of inflation is presented on page 30.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
Intel Corporation

We have examined the accompanying consolidated balance sheets of Intel Corporation at December 31, 1983 and 1982, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Intel Corporation at December 31, 1983 and 1982, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Jose, California
January 12, 1984

FINANCIAL INFORMATION BY QUARTER (unaudited)

(Thousands-except per share data)

| | Quarter Ended | | | |
|---|--------------------------|-----------|-----------|-----------|
| | Dec. 31 | Sept. 30 | Jun. 30 | Mar. 31 |
| 1983 | | | | |
| Net revenues | \$332,414 | \$292,430 | \$259,573 | \$237,526 |
| Cost of sales | \$173,865 | \$156,586 | \$150,277 | \$143,568 |
| Net income | \$ 47,138 ^(B) | \$ 32,129 | \$ 24,333 | \$ 12,511 |
| Earnings per capital and capital equivalent share | \$.40 | \$.29 | \$.22 | \$.12 |
| Market price range (A) High | \$ 43.38 | \$ 45.13 | \$ 37.94 | \$ 24.13 |
| Low | \$ 35.38 | \$ 36.13 | \$ 21.81 | \$ 18.69 |
| 1982 | | | | |
| Net revenues | \$239,368 | \$236,897 | \$216,437 | \$207,110 |
| Cost of sales | \$152,935 | \$145,555 | \$124,497 | \$118,941 |
| Net income | \$ 8,039 | \$ 8,408 | \$ 8,194 | \$ 5,405 |
| Earnings per capital and capital equivalent share | \$.08 | \$.09 | \$.09 | \$.06 |
| Market price range (A) High | \$ 20.57 | \$ 19.88 | \$ 17.19 | \$ 14.44 |
| Low | \$ 16.44 | \$ 13.32 | \$ 14.25 | \$ 10.44 |

(A) Intel's capital stock is traded in the over-the-counter market and is quoted on NASDAQ and in the Wall Street Journal and other newspapers. At December 31, 1983 there were approximately 20,096 holders of capital stock. Intel has never paid cash dividends and has no present plans to do so.

(B) Net income for the quarter ended December 31, 1983 includes a \$3.9 million gain (\$6.2 million before taxes) realized on the sale of assets and the sale of an investment accounted for under the cost method.

Ten Years Ended December 31, 1983

| | At December 31 | | | | Year Ended December 31 | | |
|------|--|-----------------|----------------------|-------------------------|---------------------------------|-------------------------|---|
| | Net Investment In Plant & Equip. | Total Assets | Long Term Debt | Shareholders' Equity | Working Capital Provided by: | | Working Capital Used for Additions To Plant & Equip. |
| | | | | | Operations | Employee Stock Plans | |
| 1983 | \$503,592 | \$1,679,650 | \$127,586 | \$1,121,740 | \$239,183 | \$56,780 | \$144,974 |
| 1982 | 461,625 | 1,056,452 | 197,143 | 551,853 | 135,570 | 33,990 | 138,085 |
| 1981 | 411,747 | 871,517 | 150,000 | 487,817 | 118,283 | 27,598 | 157,426 |
| 1980 | 320,559 | 767,168 | 150,000 | 432,860 | 157,606 | 32,930 | 156,006 |
| 1979 | 217,391 | 500,093 | — | 303,189 | 124,961 | 19,869 | 96,681 |
| 1978 | 160,140 | 356,565 | — | 205,062 | 78,025 | 12,025 | 104,157 |
| 1977 | 80,117 | 221,246 | — | 148,942 | 49,777 | 7,766 | 44,881 |
| 1976 | 51,069 | 156,568 | — | 109,460 | 38,018 | 10,073 | 32,073 |
| 1975 | 28,474 | 102,719 | — | 74,173 | 24,232 | 7,100 | 11,169 |
| 1974 | 22,186 | 75,410 | — | 50,799 | 25,515 | 3,135 | 12,783 |

Year Ended December 31

| | Net Revenues | Cost of Sales | Research & Development | Operating Income | Net Income | |
|------|-----------------|------------------|---------------------------|---------------------|------------|-----------|
| | | | | | Total | Per Share |
| 1983 | \$1,121,943 | \$624,296 | \$142,295 | \$138,717 | \$116,111 | \$1.05 |
| 1982 | 899,812 | 541,928 | 130,801 | 28,443 | 30,046 | .32 |
| 1981 | 788,676 | 458,308 | 116,496 | 29,579 | 27,359 | .31 |
| 1980 | 854,561 | 399,438 | 96,426 | 183,120 | 96,741 | 1.11 |
| 1979 | 660,984 | 313,106 | 66,735 | 149,169 | 77,804 | .92 |
| 1978 | 399,390 | 196,376 | 41,360 | 85,043 | 44,314 | .54 |
| 1977 | 282,549 | 143,979 | 27,921 | 63,146 | 31,716 | .40 |
| 1976 | 225,979 | 117,193 | 20,709 | 51,457 | 25,214 | .32 |
| 1975 | 136,788 | 67,649 | 14,541 | 33,212 | 16,274 | .21 |
| 1974 | 134,456 | 67,909 | 10,500 | 40,678 | 19,776 | .26 |

Results of Operations Revenues of \$1.1 billion in 1983 represent a record for Intel and an increase of 25% over the previous high of nearly \$900 million in 1982 and 42% over the \$789 million in 1981. This increase reflects continued strong growth in total units, partially offset by a decrease in average selling prices of some of our mature products. In recent years the semiconductor industry has experienced a significantly decreasing trend in selling prices. That trend slowed in the last half of 1983 as the industry emerged from the recession and Intel experienced very strong demand for its products that continues to exceed capacity.

Gross profit margins increased to 44% in 1983 from 40% in 1982 and 42% in 1981, consistent with the slowing of price declines. The Company increased volume shipments on newer products with higher margins at the same time that pricing pressure on older products slackened. 1983 gross margin benefitted from the Company's ability to control the growth of expenses below the growth in revenue. New product introductions continued to be strong in 1983 as a result of significant research and development expenses in prior years.

Operating income rose \$110 million over 1982 (\$109 million over 1981) due primarily to the aggressive productivity and expense control measures that were taken throughout most of 1983 and the firming of prices mentioned above. As revenues rose 25%, operating expenses (excluding cost of sales) increased only 9% from 1982.

Net interest and other income increased \$38 million in 1983. The equity infusion of \$250 million in the first quarter and positive cash flow from operations provided more interest income. Interest expense decreased following the conversion of the 7% convertible subordinated debentures in October, but increased due to increased borrowings in the second half of the year (See Borrowings).

The effective tax rate of 35% increased from the 1% in 1982 (32% in 1981). This change in the effective tax rate is due primarily to the proportionately low percentage impact of tax credits on the higher pretax profits in 1983.

Financial Condition Intel's financial condition has improved significantly since 1982. Shareholders' Equity has increased to over \$1 billion. Total cash and investments increased from \$136 million at December 31, 1982 to \$606 million at December 31, 1983. Working capital increased \$302 million due primarily to the sale of capital stock and increased funds provided by operations.

The Company recognizes a need to maintain high levels of investment in capital equipment, working capital and research and development to sustain its long-term growth. Intel expects to increase its investment in capital equipment to levels well beyond prior years. Inventories have risen \$30 million over the year in keeping with the increased production levels.

The Company's liquidity was enhanced in 1983 by several significant financial events. Of the \$110 million received from the proceeds of the Puerto Rico financings, \$40 million was used to defease the 9.5% bonds issued in 1982 (See Borrowings). The remaining \$70 million will be used by the Company over the next several years to invest in capital equipment to support the manufacturing effort in Puerto Rico.

The \$250 million received from the sale of 12,500,000 shares of capital stock has been invested in interest-bearing securities. These funds provide the Company financial strength necessary to continue with capital equipment and research and development projects to maintain its technological leadership and growth over the coming years.

The conversion of the 7% convertible subordinated debentures into capital stock improved the Company's debt-to-equity ratio and eliminated \$10.5 million in annual interest expense.

See the following pages for financial summaries and a discussion of the impacts of inflation and changing prices.

For the Year Ended December 31, 1983 (unaudited)

| | As Reported in the Primary Statements | Adjusted for General Inflation (Constant Dollar) | Adjusted for Changes in Specific Prices (Current Cost) |
|---|---|---|---|
| NET REVENUES | \$1,121.9 | \$1,121.9 | \$1,121.9 |
| Cost of sales | 624.3 | 632.2 | 632.7 |
| Research and development | 142.3 | 143.3 | 143.4 |
| Marketing, general and administrative | 216.6 | 216.8 | 217.1 |
| Interest and other (income) | (39.7) | (39.4) | (39.7) |
| Taxes on income | 62.3 | 61.9 | 62.3 |
| NET INCOME | \$ 116.1 | \$ 107.1 | \$ 106.1 |
| Earnings per capital and capital equivalent share | \$ 1.05 | \$.97 | \$.96 |
| Depreciation included in costs and expenses above | \$ 85.2 | \$ 95.2 | \$ 95.2 |
| Purchasing power loss on net monetary items held during the year | | \$ 12.3 | |
| Amount of inventory and property, plant and equipment at December 31 (A) | | | \$ 740.0 |
| Increase in specific prices of inventories and property, plant and equipment (net) held during the year | | | \$ 41.9 |
| Effect of increase in general price level | | | \$ 23.3 |
| Excess of increase in specific prices over increase in the general price level | | | \$ 18.6 |

(A) Current cost of net inventories and property, plant and equipment is \$154.2 million and \$585.8 million, respectively, at December 31, 1983.

Management's Discussion of Adjusted Financial Data (unaudited)

The statements of selected financial data adjusted for changing prices are presented in accordance with the requirements of FASB Statement No. 33. This pronouncement is experimental in nature and requires that numerous assumptions and estimates be used in computing the final adjusted numbers. These results should, therefore, be considered in that context and not as precise indicators of the effects of changing prices on the company.

Two types of information, constant dollar and current cost, are presented as a supplement to the traditional financial statements. The constant dollar information is a general restatement of historical data to monetary units having the same general purchasing power. As required by the FASB, this restatement is made using the Consumer Price Index for All Urban Consumers (CPI-U). The current cost information is a restatement of selected his-

torical data to reflect the effects of changes in the relative prices of specific items. Rather than using a general index such as the CPI-U, current cost computations are based upon specific indices relevant to Intel's capital assets. The following explanatory comments are provided to assist in understanding the restated data.

Income Statement Historical operating expenses have been restated into constant dollar and current cost amounts by adjusting their depreciation components. The adjusted depreciation expense is calculated by restating the historical cost of assets acquired in prior years into average 1983 dollars using the relevant index and calculating depreciation thereon using the same methods and estimated useful lives as used in the traditional statements. Other expenses have also been restated into average 1983 dollars. No adjustments have been made to taxes on income for deferred taxes that might be deemed to arise as a result of differences be-

Five Year Comparison of Selected Financial Data (Millions—except per share data) Adjusted for Changing Prices

Intel Corporation

| Five Years Ended December 31, 1983 (unaudited) | 1983 | 1982 | 1981 | 1980 | 1979 |
|---|------------|----------|-----------|------------|-----------|
| Net revenues | | | | | |
| As reported | \$ 1,121.9 | \$ 899.8 | \$ 788.7 | \$ 854.6 | \$ 661.0 |
| In constant dollars | \$ 1,121.9 | \$ 928.1 | \$ 864.5 | \$ 1,033.8 | \$ 908.2 |
| Net income | | | | | |
| As reported | \$ 116.1 | \$ 30.0 | \$ 27.4 | \$ 96.7 | \$ 77.8 |
| In constant dollars | \$ 107.1 | \$ 20.8 | \$ 5.2 | \$ 93.6 | \$ 89.6 |
| In current costs | \$ 106.1 | \$ 23.2 | \$ 18.6 | \$ 105.1 | \$ 83.6 |
| Earnings per share | | | | | |
| As reported | \$ 1.05 | \$ 0.32 | \$ 0.31 | \$ 1.11 | \$ 0.92 |
| In constant dollars | \$ 0.97 | \$ 0.23 | \$ 0.06 | \$ 1.07 | \$ 1.06 |
| In current costs | \$ 0.96 | \$ 0.26 | \$ 0.21 | \$ 1.20 | \$ 0.99 |
| Net assets at year end | | | | | |
| As reported | \$ 1,121.7 | \$ 551.9 | \$ 487.8 | \$ 432.9 | \$ 303.2 |
| In constant dollars | \$ 1,189.0 | \$ 640.5 | \$ 620.1 | \$ 562.0 | \$ 455.2 |
| In current costs | \$ 1,200.7 | \$ 632.2 | \$ 605.1 | \$ 582.2 | \$ 435.9 |
| Increase (decrease) in specific prices of inventories and property, plant, and equipment over increase in the general price level | \$ 18.6 | \$ (4.1) | \$ (11.1) | \$ (11.0) | \$ (11.6) |
| Purchasing power loss on net monetary items | \$ 12.3 | \$ 3.3 | \$ 7.3 | \$ 4.2 | \$ 2.5 |
| Market price per common share | | | | | |
| As reported at year end | \$ 41.88 | \$ 19.19 | \$ 11.31 | \$ 20.12 | \$ 16.88 |
| In constant dollars | \$ 41.03 | \$ 19.36 | \$ 11.99 | \$ 23.26 | \$ 21.92 |
| Average Consumer Price Index (1967 = 100.0) | 298.6 * | 289.1 | 272.4 | 246.8 | 217.4 |

Adjusted data on dividends per common share is not presented, because no cash dividends have ever been paid by the company.

*Estimated

tween income on a constant dollar basis and income reported for tax purposes.

Purchasing Power Loss The economic significance of monetary items (cash, receivables and obligations of fixed amounts) is related to the general purchasing power of money. During an inflationary period, companies experience purchasing power gains from holding net monetary liabilities and purchasing power losses from holding net monetary assets. As a result of holding net monetary assets, Intel experienced purchasing power losses in 1983 and in each of the four preceding years.

Inventory and Property, Plant and Equipment

The current cost of property, plant and equipment and the depreciation component of inventory have been computed based on the specific indices mentioned above. No other adjustments have been made to inventories since historical costs approximate current costs.

In 1983, the change in the current costs of these assets was impacted more by increases in specific prices than by changes in the general price level.

Five Year Comparison All constant dollar and current cost data presented for prior years have been restated into average 1983 dollars using the CPI-U.

Summary Inflation causes dollars earned and spent in the current year to have less value than dollars earned and spent in prior years. The CPI-U approximates this change in value for the U.S. economy as a whole, taking into account the effects of inflation on the prices of a representative assortment of commodities. Due to the nature of Intel's business, management feels that the CPI-U is not a relevant measure of the effects of inflation on the company and, therefore, places less value on the constant dollar information than on the current cost information.

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Intel Corporation

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† Member of the Audit Committee

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Form 10-K

If you would like to receive,
without charge, a copy of
the Corporation's 'Form 10-
K' which will be filed with
the Securities and
Exchange Commission
prior to March 30, 1984 for
the 1983 year, please send
your request to:

F. Thomas Dunlap, Jr.,
Secretary
Intel Corporation
Mail Stop ST2-1-105
3065 Bowers Ave.
Santa Clara, Ca. 95051.

Annual Meeting

The Intel Annual Meeting of
Shareholders will be held
March 28, 1984 at The Red
Lion Inn, Lloyd Center,
Portland, Oregon.

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Certified Public Accountants

Arthur Young & Company
San Jose, California

Corporate Headquarters

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Additional copies of this report are available at the following locations:

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